4/30/81 BH750-1

Financial Markets

Irving Trust

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Economic Research &
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Friday
(Noon)

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Financial markets ended the week in an extremely nervous and tense condition, reflecting an abrupt reversal of the decline in the rate on Federal funds that occurred earlier this week, magnified by swollen dealer inventories. In the absence of an overt move toward ease by the Fed, the next several weeks could be very difficult for the markets. The "negative carry" to which dealers are exposed leaves rates vulnerable to increases. Moreover, the next several weeks are a period during which the Fed must inject reserves for seasonal reasons. In such a setting, banks are short of reserves, and traders in the funds market can be expected to be somewhat more aggressive than at other times. That could contribute to firmness in the funds rate.

While there is as yet no concrete indication that the FOMC made any change in its policy stance as a result of its Tuesday meeting, our expectation is that rates will continue to work downward over the next several months. However, for reasons explored here last week, the descent promises to be highly irregular and volatile.

On Thursday, it was reported that Chairman Volcker had sent a letter to Senate Banking Committee Chairman Jake Garn stating that the Fed currently is studying various alternatives to the present system of weekly release of money stock data and that public comment would be invited during the next two or three months. Alternatives specifically mentioned included delaying publication of the weekly numbers for another week, publishing only nonseasonally adjusted data, publishing data monthly, and publishing data in the form of some kind of moving average. These alternatives are being considered because movements in the weekly data are highly erratic, or "noisy." Since financial markets do react to the weekly money data, some have argued that the reactions are exaggerated and properly should be minimized.

Our view is that adoption of any of the above proposals would have detrimental effects on the financial markets. First, if the behavior of market participants truly is so irrational as alleged, it is hard to see how withholding timely information would improve matters. More fundamentally, the Fed has no responsibility to insulate any individual from the consequences of his own peculiar foibles; if his behavior really does systematically exaggerate the significance of weekly data, the market can be expected to provide the necessary discipline. To believe otherwise is to assume that no one is prepared to discount the weekly numbers appropriately for their noise content. Moreover, delay in the weekly release or adoption of a monthly format would spur (largely wasteful) private investment in money data collection and probably compound the suddenness of reaction to the actual releases. Finally, further delay in release of the nonseasonally adjusted money components would seriously impair the forecasting of bank reserves positions--a key element in the market's interpretation of Fed open market operations. For these reasons we hope and expect that the present release system--despite its imperfections--will be retained.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

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Market Yields

	4/3/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.00%	17.50%	20.00%
Effective since	4/1/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.88	15.38	20.50
Repurchase Agreements	15.50	14.50	16.25
U.S. Treasury Issues			
Bills			
3 months	13.35	13.50	15.60
6 months	13.35	13.65	15.98
1 year	13.35	13.48	15.51
Coupons			
2 years	13.50	13.50	14.44
4 years	13.54	13.55	13.20
7 years	13.44	13.50	12.57
10 years	13.29	13.30	12.47
Long Bond	12.86	12.90	12.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.05	14.00	17.50
3 months	14.05	14.15	18.00
6 months	14.00	14.15	18.30
1 year	14.00	14.50	NA
Banker's Acceptances			
1 month	14.15	14.35	17.40
3 months	13.75	14.25	18.30
6 months	13.25	14.30	18.55
Eurodollar Deposits			
1 month	14.50	14.75	19.00
2 months	14.63	15.07	19.38
3 months	14.63	15.13	19.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	13.75	16.75
1 month	12.75	13.00	17.38
3 months	12.75	12.25	15.00
Bank Holding Companies			
1 month	13.25	13.75	17.50
Dealer Placed:			
3 months	13.38	11.00	17.00
New AA Corporate Utility Bond	15.60	15.50	15.25
Tax Exempt			
6 month Project Notes	6.45	6.85	8.60
1 year AAA Bond	7.05	7.00	8.00
5 year AAA Bond	7.60	7.75	8.10
20 year AAA Bond	9.45	9.50	9.44

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

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